



THE 1964 WHEAT PROGRAM WHEAT REFERENDUM

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AGRICULTURAL EXTENSION SERVICE • U. S. DEPARTMENT OF AGRICULTURE

One of the objectives of educational work in public affairs by the Minnesota Agricultural Extension Service is to develop a general understanding of the problems of agriculture and the broad range of policy alternatives. The role of agricultural extension education in regard to the forthcoming wheat referendum is to present facts and to suggest the consequences of alternative choices.

On May 21, 1963, you have the opportunity to help make an important decision regarding alternative wheat programs for 1964. To do this as an informed citizen you will need to study the current wheat situation, the alternative programs open to you and the consequences of your choice -- for you, your community and your country. Facts concerning the program and an economic analysis of alternatives are not the only basis for your decision. Your attitude concerning government programs, freedom, income security, and concern for the welfare of others should also be considered. Short run gains must be compared to less well known long-run impacts. Only you can decide your position on these issues.

This publication is concerned with the forthcoming wheat referendum. It attempts to present factual information; an analysis of wheat program alternatives; and key considerations. No conscious attempt has been made to tell you how to vote.

I THE WHEAT SITUATION ^{1/}

The United States Agricultural industry is faced with a supply demand imbalance -- production capacity exceeds needs at recent price levels. For no commodity is the imbalance greater than in the case of wheat. Except during and immediately after World War II wheat output generally has increased more rapidly than effective demand. In the absence of government programs the result was low prices and incomes. With government programs, prices and incomes have been higher; producer decisions have been restricted; and government stocks have accumulated. During the 1950's government stocks of wheat have continued to grow despite the stiffest acreage controls in history and despite surplus disposal efforts at home and overseas.

Annual production averaged 50 million bushels greater than utilization (including government disposal) during the 1954-61 period. By 1961 CCC owned 1300 million bushels of wheat --- almost two times annual domestic and dollar export needs. The size and cost of CCC stocks together with increasing yields per acre, stable domestic use, and the possibility of shrinking dollar markets abroad imply an adjustment is needed in wheat production --- fewer resources are needed.

Present government involvement with wheat traces to the Agricultural Adjustment Act of 1938. It established the basic mechanism of acreage allotments and non recourse loans for price and income support of the basic crops including wheat. This basic policy had not changed materially until passage of the 1962 farm act. A later section explains in detail these changes which are scheduled to go into effect for the 1964 crop.

Under the Agricultural Adjustment Act of 1938, wheat acreage was reduced from 80 million in 1938 to 55 million in 1942. During the war, restrictions were lifted and acreage reached 84 million in 1949. Acreage allotments and marketing quotas were reinstated for the 1954 crop. The legal minimum national allotment of 55 million acres has been in effect since 1954, though it was cut 10 per cent for the 1962 crop. The 1963 acreage allotment is again 55 million acres. A voluntary diversion program was in effect in 1962 and will be in 1963.

Production of wheat since 1958 has ranged between 1,000 and 1,455 million bushels. The 1962 crop, lowest in recent years, was 1092 million bushels.

Historically wheat has been a major export commodity. As the agriculture of war-torn countries recovered following World War II, U. S. exports declined to 215 million bushels in 1953. The dollar market has been maintained at about 150 million bushels per year since that time through a government export subsidy to make U. S. wheat competitive on world markets. In addition since 1954 export sales under a variety of government programs, especially sales for foreign currency has increased. As a result total exports have exceeded 660 million bushels in 1960-61 and 700 million in 1961-62.

^{1/} Adapted from "An Analysis of Policy Alternatives for Wheat" Robert W. Wilcox, Farm Policy Alternatives, U.S.D.A. F.E.S. March 1963.

Domestic use as food has changed little since 1935, ranging from 471 - 494 million bushels. Increasing population has made up the difference lost from decreasing per capita consumption. Total domestic disappearance totals about 600 million in recent years. Thus dollar exports and P. L. 480, exports of wheat in total have exceeded domestic utilization in recent years.

The present wheat situation illustrates the problem. (See Table 1.) The U. S. wheat supply for the current marketing year (1962 production and July 1, 1962 carryover) was about 2402 million bushels. Total disappearance for 1962-63 is estimated by U. S. D. A. at 1117 million bushels. About 607 million bushels are expected to be used domestically, and exports may reach 570 million bushels. Thus carryover July 1 could be about 1225 million bushels, down slightly (106 million) from a year ago and compared to 1036 million in 1955 and 425 million in 1950.

For the year 1963-64 production outlook is up. Assuming a harvested acreage of 47 million acres under the 1963 voluntary wheat program and a continuation of the upward trend in yields, the resulting crop could be 1225 million bushels. Assuming a carryover of 1225 million bushels, imports of 5 million and a production of 1,225 million, the total supply for the 1963-64 marketing year would provide a total supply of 2455 million bushels. Based on projected estimates of exports and domestic use, carry over stocks July 1, 1964, will be approximately 1235 million bushels.

Table 1. Estimated Supply and Distribution of all Wheat; and Dollar and Government Financed Exports; by Crop Years

	1957-58	1958-59	1959-60	1960-61	1961-62	Est. 1962-63	Forecast 1963-64
	Million bushels						
Stocks, July 1	909	882	1296	1314	1411	1305	1225
Production	956	1457	1121	1357	1235	1092	1225
Imports	11	8	7	8	6	5	5
Supply	1876	2347	2424	2679	2652	2402	2455
Exports	403	443	510	662	718	570	625
Domestic disappearance	591	608	600	606	629	607	600
Stocks, June 30	882	1296	1314	1411	1305	1225	1235

Exports*						1957-61 average	
Dollar sales	113	113	101	209	202		
Government program	214	248	312	357	405		
Total	327	361	413	566	607		
Percent Govt. Program	66	69	76	64	67	68	

*Grain only; does not include flour.

II PROGRAM FEATURES -- WHEAT PROGRAM ALTERNATIVES

The Food and Agricultural Act of 1962 provides, among other things, a wheat referendum in which producers may vote on a wheat program for 1964 and subsequent crops. The referendum for the 1964 wheat crop year will be held May 21, 1963.

If at least two-thirds of the producers voting vote "yes", a new program involving restricted wheat acreage, a two-price plan, and price supports will be put in effect.

If more than one-third of the producers voting vote "no" then the 1962 law specifies a program of no mandatory acreage restrictions for 1964; price supports at 50% of parity for producers complying with their acreage allotment; and no price support for producers exceeding their allotments.

Regardless of the referendum vote in 1963, the Food and Agriculture Act of 1962 calls for another referendum in 1964.

The following is a summary of principal features of the 1964 wheat program alternatives specified in the 1962 act.

A. THE "YES" PROGRAM ALTERNATIVE

Under the law the Secretary of Agriculture has set the national wheat acreage allotment for 1964 at 49.5 million acres. That's about 10% less than 1963 when the 55 million acre national minimum allotment was still in effect. Acreage allotment cannot be set below that which the Secretary of Agriculture determines necessary to produce one billion bushels of wheat.

Land Diversion & Diversion Payments*

Mandatory

Each producer's 1964 acreage allotment will be 10% below his 1963 allotment (or acreage grown 59-61) He will be required to divert this difference into conservation use. For this diversion, he will be eligible for diversion payments at the rate of 30% of the basic county support price times his normal yield per acre. The assigned normal yield in Minnesota is 26.4 bu. per acre and range at the county level between 19 and 31 bushels per acre. For example, a man with 30 acres in 1963 would get a 1964 allotment of 27 acres -- the 3 acres must go into conservation uses. With a normal yield of 24 bu. per acre and county price support of \$2.00, the diversion payment would be (24 x \$2.00 x 30%) \$14.40 per acre. This provision for payment on mandatory diversion is effective through the 1965 crop year only.

* Diversion payments are authorized for '64 and '65 only.

Voluntary

Each producer may divert up to an additional 20% of his 1964 allotment or an acreage which would bring the total farm diversion (including above mandatory) acreage to 15 acres. The payment for voluntary diversion will be at the rate of 50% of the basic county support price times the normal yield per acre. In the example above, 12 additional acres (15 less 3) could be voluntarily retired. The diversion payment for this voluntary acreage diversion would be (24 x \$2.00 x 50%) \$24.00 per acre.

A producer with a 1964 allotment of 13.5 acres or less may divert all his wheat land at this higher diversion rate. Payments for voluntary diversion are currently provided for through 1965.

Use of Diverted Acres

As in the past, the county ASCS committees will decide, on the basis of guidelines given them by the USDA and the Minnesota ASCS State Committee, what will be accepted as "proper" use of diverted acres. Grazing, or planting of certain crops will be allowed at lower diversion payment rates.

Penalty for Overplanting

Overplanting will result in the loss of price support and diversion payments and a penalty of 65% of parity or about \$1.55 per bushel. This penalty may be postponed and the producer may be made eligible for price support by storing the excess production. Wheat so stored may be marketed later without penalty because of a less than normal crop, or by paying the marketing quota penalty. In addition the producers future allotment would be reduced if he exceeds his allotment in 1964.

Price Support

The basic price support rate (\$2.00 per bushel) will apply to wheat used domestically for food and to part of the export wheat. In Minnesota it will range between \$2.08 and \$2.23 per bushel. The USDA indicates that the \$2.00 rate will apply to 975 million bushels in 1964. This amount of wheat is called the "national marketing allocation" and will amount to about 80% of normal production on the 1964 acreage allotment. For 1965 and later years the basic support rate will be set by the Secretary at from 65 to 90% of parity, which is a range of \$1.60 - \$2.20.

Wheat grown in excess of the farm marketing allocation* will be eligible for support at a national average of \$1.30 per bushel for 1964. In Minnesota this will likely range from \$1.38 to \$1.53. For subsequent years, these support prices will be set at such level as the Secretary determines according to the provisions of the law.

*Note that the farm marketing allocation is wheat which can be supported at \$2. It's also called "certificate" wheat in view of the way it will be identified. The farm marketing quota is all wheat grown on allotted acres.

The "blend" price will be between \$1.30 and \$2.00 for most producers. The following examples (using national average prices and assuming that the entire production is marketed) are included to illustrate average prices:

1. Assuming an 80% national marketing allocation a farmer who plans his allotted acres and produces his exact normal yield per acre will average \$1.86 per bushel ($.8 \times \$2.00 + .2 \times \$1.30 = \1.86)
2. A farmer whose production is greater than normal production will average less than \$1.86 per bushel. For example, a producer with a normal yield of 25 bushels per acre who actually produces 40 bushels per acre will receive \$2 per bushel for 20 bushels ($25 \times 80\%$) and \$1.30 per bushel for 20 bushels. The average price for his entire production then will be \$1.65.
3. A farmer who produces only 80 percent or less of his normal production due to low yields or voluntary diversion will receive \$2 per bushel for his entire production.

B. THE "NO" PROGRAM ALTERNATIVE

If more than one-third of the farmers voting in the referendum vote "no", the national acreage allotment will be the same as the "yes" program, 49.5 million acres for 1964. There will be no payments for diversion of land and no compulsory diversion. There will be no penalty for overplanting. However, overplanting in 1964 will result in a reduction in future allotment as under previous programs. Also, price support will not be available to those overplanting. Those who plant within their acreage allotments will be eligible for price supports at 50% of the parity price, about \$1.25 national average.

With a loan rate of 50% of parity (about \$1.25) and assuming wheat producers comply to a large degree with acreage allotments, wheat prices could be expected to average near the loan rate.

However, if a large percentage of the producers do not comply with allotments, there will be a corresponding increase in production assuming yields equal to those of recent years. This would suggest that wheat prices would tend toward the level of feed grain prices --- \$1.10 - \$1.20 per bushel. Therefore, unless new legislation affecting 1964 wheat were passed, cash wheat prices probably would fall somewhere between 50% of parity and feed grain prices (between \$1.10 - \$1.40). The actual level of feed grain prices is unknown and will depend upon the outcome of feed-grain legislation in the current congress.

Small Allotment Farms

The old provision allowing fifteen acres without penalty and 30 acres for feed without penalty is out. Under the 1964 program, small allotment farmers,-- those who grew wheat under the fifteen acre exemption, may choose whether to participate in the program as an allotment grower. However, he may vote in the referendum only if he chooses to be considered an allotment grower.

Participation

The small wheat farmer who wishes to vote in the referendum must so indicate to ASCS at least seven days prior to balloting May 13. The back of the notice of farm allotment has a space for this purpose. This will make him subject to the acreage allotment and marketing quota provisions. His farm allotment will be the larger of (1) '59-'61 average seeding reduced by the percentage the national acreage allotment is reduced from 55 million acres (about 10%), or (2) the acreage allotment determined in the same manner as the allotment on larger (over 15 acre allotment) farm based on the farm's '53 - '62 wheat acreage. If he complies with this allotment, he is eligible for price supports and land diversion payments. However, if all of the wheat allotment on the farm is voluntarily diverted, there will be no marketing allocation for the farm.

For participating small farms, land diversion payments will be made for the mandatory diversion. Additional payments for voluntary diversion will be available since the small farmer with 13.5 acres or less wheat allotment may divert voluntarily up to the full amount of his allotment plus the mandatory diversion.

Non-participation

If he chooses not to participate in the wheat referendum, he can grow without penalty: (1) his acreage allotment figured as previously, or (2) an average of his '59 - '61 seeding not to exceed 15 acres, whichever is larger. As a non-participant, such a grower is not eligible for price supports, for land diversion payments, or to vote in the referendum.

C. OTHER POSSIBLE ALTERNATIVES

The 1962 Food and Agriculture Act provisions dealing with wheat are scheduled to be implemented in 1964 subject to the outcome of the referendum. Thus alternatives are confined to the "yes" and "no" implication of the referendum.

Congress retains unto itself the right and responsibility to pass additional legislation at any time. This leaves the possibility of additional legislation for consideration. New legislation would be more likely in case of a "no" vote.

Some bills have already been introduced. Any number of alternatives would be possible. Among those that would likely receive consideration are:

1. Continuation of the 1962 -63 program of price supports, acreage allotments, and a voluntary diversion program.
2. A program of lower support price for wheat set at the higher of the average world price of wheat during the three preceding years (about \$1.30) or 50% of parity (about \$1.22); no acreage allotments or marketing quotas, and a voluntary cropland retirement program including features for whole farm retirement.

SUMMARY
Wheat Program Provisions, 1964 Referendum

<u>"Yes" Vote</u>	<u>"No" Vote</u>
<u>Acreage Allotments</u>	
49.5 million acres (compliance mandatory)	49.5 million acres (same as with 'yes' vote) (Compliance voluntary)
<u>Mandatory Diversion</u>	
About 10% of 1963 farm allotment	None
<u>Voluntary Diversion</u>	
Up to 20% of 1964 farm allotment	None
<u>Diversion Payments</u>	
30% of support level times normal yield for mandatory diversion	None
50% of support level times normal yield for voluntary diversion	None
<u>Penalty for Overplanting</u>	
65% of parity on twice normal production from excess acres or on actual production and reduction of allotment history	Loss of price support and reduction of allotment history
<u>Price Support</u>	
\$2 national average on about 80% of normal production on acreage allotment	50% of parity to farmers complying with acreage allotments
\$1.30 national average on rest of production	No price supports to noncomplying farmers
<p>[This means \$1.86 average price assuming normal production and no voluntary land retirement (80% x \$2 + 20% x \$1.30 = \$1.86)]</p>	

III. General Considerations - Analysis

The basic problem in the wheat economy and American agriculture generally is that too many resources (land, labor and capital such as machinery) are devoted to agricultural production relative to consumers' desires. Key agricultural policy decisions involve choices regarding how best to remove some of these resources. The alternatives presented in the 1964 referendum are by no means the only alternatives and perhaps not the best of all possible alternatives with respect to wheat. The basic choice facing wheat producers in the referendum is -- (1) will the resources devoted to wheat be reduced through mandatory government regulations with relatively higher level of prices and incomes for producers, or (2) will the incentive to remove resources in wheat production be left largely to the price system involving greater decision making freedom for producers but lower levels of prices and incomes.

A suggested proposal not encompassed in the 1963 referendum is one involving government aids and guidance to achieve desired adjustment.

Some producers may wish to assume that the basic decision could be delayed or modified once more, as it has been in the past, if Congress should decide to pass an alternative law following the referendum. This is a possibility if a "no" vote prevails.

It is apparent that for the individual producer the question is one to be decided partially on economic considerations and also on his attitudes towards government programs. Value judgments and attitudes are involved.

The following are some general considerations as a farmer decides how he will vote in the forthcoming referendum.

Income to wheat producers will be higher under a "yes" vote than a "no" vote in the referendum for the year 1964. This probably also would be true in 1965 although changes in price support levels, diversion payment rates and size of marketing allocation (certificate wheat) could alter the difference. Unless new legislation is forthcoming for the year 1966, diversion payments will cease and this makes the income difference between the two alternatives smaller.

Legislation for modifying the referendum "no" vote to include lower support levels and land retirement features as proposed by some would result in lower incomes to wheat producers during the next couple of years. But this alternative would be accompanied by less restrictive government controls.

Costs to government and consumers depends on the amount of export subsidy required, the method and amount of payments made for idling land, levels of support prices and wheat consumption patterns. Government costs would be lower under a "no" referendum vote since support prices would be lower; no diversion payments would be required and export subsidy payments would be low. While wheat program costs would be lower, feed grain program costs would

increase under a feed grain program comparable to 1963. This would be due to increased government takeover of feed grain as a result of (a) increased use of wheat as feed and (b) a shift from wheat acreage to feed grain production.

If enabling legislation to provide for a land retirement program were to be enacted following a "no" vote government costs would be higher compared to a "no" vote program.

The effect on cost of food to the consumer would be minor since the value for wheat relative to the retail price of wheat products is low. Consumer cost for food would be slightly higher with a "yes" vote.

Feed Grain Program effects of the wheat referendum are difficult to measure. A "no" vote would place additional pressures upon a feed grain program if it continues similar to the 1963 program. Wheat at feed grain prices would tend to bring down the price of other grains. If no legislation were passed to control wheat supplies, costs of operating an effective feed grain program would increase markedly.

Land use and land value adjustments depend in part on the rigidities of marketing quotas in any supply management program. If marketing quotas are tied to the individual farm allotment as in the present "yes" referendum program the distribution of wheat production will change little.

Under a "no" vote there will likely be a little shift to other feed grains in the major wheat producing states. The price of wheat would need to drop drastically (below 50% parity) relative to feed grains before acreage would be shifted to other grains. Throughout the Midwest small wheat growers will either plant within allotments or shift out of wheat completely, depending on how the wheat and feed grain program is tied together. In balance, wheat acreage would likely increase for at least a few years. In Minnesota, there could be a shift to wheat as feed grain substituting for oats in the cropping system in Southern Minnesota and for barley in Northwest Minnesota.

Higher prices and incomes due to past support programs have been partially capitalized into land values. A "yes" vote would tend to maintain or possibly increase this "artificial" price of land. A "no" vote continued over a period of years undoubtedly will reduce land values in major wheat growing areas. Replacement legislation could temper this.

The degree of control of farm operations is markedly affected by the referendum vote. A "yes" vote indicates mandatory compliance with acreage allotments and tight restrictions on production and marketing of wheat. A "no" vote leaves compliance on a voluntary basis and fewer restrictions on production and marketing of wheat.

Interregional competition in wheat production is also important. Wheat is produced in a number of overlapping regions in the United States. Classes and quality of wheat varies by regions and within regions. General quality characteristics of hard red spring wheat produced in Minnesota, North Dakota, South Dakota and Montana differ in varying degrees from those of hard red winter, soft red winter or white wheat. Interregional differences in the wheat produced

form part of the basis for interregional competition in wheat.

Hard red spring wheat production has not increased relative to that for some other classes, particularly hard red winter, produced largely in the central and southern great plains, consequently hard red spring wheat has not contributed as much to the surplus situation. Government programs generally have not adequately recognized this situation.

If reductions in wheat quotas become progressively greater, output of high quality wheat may be reduced below needs. This may force the substitutions of lower quality wheats in many food uses.

Historically, price differentials between classes of wheat have not been large. Adjustments in relative supply and in utilization are possible. Unfortunately, we don't know how rapidly they might occur if the price incentive to do so developed under conditions of reduced control over supply and price. The influence of a "no" vote on interregional competition is highly uncertain.

Since over half of our wheat production moves into foreign markets, the effects of alternative wheat programs on exports are important though not entirely clear. As indicated earlier, our present ability to export wheat to markets that can pay in dollars is dependent upon payment of an export subsidy. But, many importing countries also have price support programs that tend to make price changes on our part ineffective. In the European Common Market, for example, a variable levy system on imports raises all wheat prices at least enough to maintain a given level of domestic prices. Lower wheat prices in the United States as a result of the "no" referendum would not be expected to increase exports to the Common Market countries if they pursue their intention of expanding their own wheat productions. Rather, lower wheat prices in the United States could be offset by higher import levies in the Common Market countries.

Whether or not lower prices would increase our competitive position relative to other exporters such as Canada depends upon our rates of export subsidy and the counter action they follow. Because of the importance of wheat exports to the economies of the major exporting countries it seems likely that they would take action to "meet our price." In the final analysis it seems unlikely that a large change in dollar exports is possible under any program alternative.

While the above considerations are difficult to analyze they should at least be considered before making up your mind on your choice in the forthcoming wheat referendum on May 21. Be sure to vote!